

STATE OF CALIFORNIA  
**DEPARTMENT OF INSURANCE**  
300 Capitol Mall, 17<sup>th</sup> Floor  
Sacramento, California 95814

**INITIAL STATEMENT OF REASONS**

**January 1, 2008 Workers' Compensation Pure Premium Rates**

**File No. REG-2007-00053**

The California Insurance Commissioner will consider (1) proposed changes to pure premium rates developed by the Commissioner's designated rating organization; (2) amendments to the California Workers' Compensation Uniform Statistical Reporting Plan—1995, Title 10 CCR §2318.6; (3) amendments to the Miscellaneous Regulations for the Recording and Reporting of Data, Title 10, CCR §2354; and (4) amendments to the California Workers' Compensation Experience Rating Plan—1995, Title 10 CCR §2353.1. The hearing will be held in response to a filing by the Workers' Compensation Insurance Rating Bureau of California ("WCIRB") submitted on September 20, 2007.

**SPECIFIC PURPOSE AND NECESSITY**

Pursuant to Insurance Code Sections 11734 and 11751.5, the Insurance Commissioner has designated the WCIRB as his rating organization and statistical agent. As the designated rating organization and statistical agent, the WCIRB has developed and submitted for Insurance Commissioner approval pure premium rates and revisions to the California Workers' Compensation Uniform Statistical Reporting Plan—1995; the Miscellaneous Regulations for the Recording and Reporting of Data; and the California Workers' Compensation Experience Rating Plan—1995. The pure premium rates will be advisory only; however, adherence to the regulations contained in the California Workers' Compensation Uniform Statistical Reporting Plan—1995, the Miscellaneous Regulations for the Recording and Reporting of Data, and the California Workers' Compensation Experience Rating Plan—1995 is mandatory. With regard to the standard classification system developed by the WCIRB and approved by the Insurance Commissioner, Insurance Code Section 11734 provides that an insurer may develop its own classification system if it is filed with the Insurance Commissioner 30 days prior to its use and is not disapproved by the Insurance Commissioner for failure to demonstrate that the data produced by the insurer's classification system can be reported consistently with the California Workers' Compensation Uniform Statistical Reporting Plan—1995 or the classification system developed by the WCIRB and approved by the Insurance Commissioner.

The Insurance Commissioner also has instructed the WCIRB to file and submit advisory rules and rating plans for review. The WCIRB is submitting amendments to the California Retrospective Rating Plan, California Large Risk Deductible Plan, and the California Small Deductible Plan.

The pure premium rates recommended by the WCIRB to be effective January 1, 2008, as well as proposed revisions to the regulations to be effective January 1, 2008, are set forth in its filing and are summarized below:

## **APPROVE PURE PREMIUM RATES**

Pursuant to California Insurance Code Section 11750.3, the WCIRB has proposed advisory pure premium rates for approval by the Insurance Commissioner to be effective January 1, 2008 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2008. The proposed advisory pure premium rates are, on average, 4.2% greater than the July 1, 2007 advisory pure premium rates approved by the Insurance Commissioner.

## **AMEND THE CALIFORNIA WORKERS' COMPENSATION UNIFORM STATISTICAL REPORTING PLAN—1995**

The WCIRB recommends amending the California Workers' Compensation Uniform Statistical Reporting Plan—1995 (USRP). These amendments are proposed to become effective January 1, 2008 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2008.

The WCIRB's recommendations are as follows:

1. Amend Part 1, *General Provisions*, Section I, *Introduction*, Rule 3, *Effective Date*, to show that the effective date of the amended USRP is 12:01 A.M., January 1, 2008.
2. Amend Part 1, *General Provisions*, Section II, *General Definitions*, to add definitions for the terms "audit," "physical audit" and "voluntary audit," for clarity and to renumber all subsequent definitions contained in this section.
3. Amend Part 1, *General Provisions*, Section V, *Inquiries, Complaints and Requests for Action, Reconsideration and Appeals*, Rule 1, *Purpose and Time Limitation*, to correct the citation for the Revision of Losses rule.
4. Amend Part 3, *Standard Classification System*, Section II, *Classification Terminology*, Rule 11, *Interchange of Labor*, for clarity.

5. Amend Part 3, *Standard Classification System*, Section III, *General Classification Procedures*, Rule 3, *Multiple Enterprises*, to add examples and reorganize for clarity.
6. Amend Part 3, *Standard Classification System*, Section IV, *Special Industry Classification Procedures*, Rule 2, *Construction or Erection Work*, Subrule a, *Determination of Dual Wage Construction or Erection Classification*, to specify that the assignment of a high wage construction classification is contingent upon the availability of records necessary to reconcile the number of hours worked against actual time cards or time sheets and to add examples for clarity.
7. Amend Part 3, *Standard Classification System*, Section V, *Payroll – Remuneration*, Rule 1, *Payroll – Remuneration*, Subrule j, *Executive Officers*, Subrule k, *Partners*, Subrule l, *Individual Employers*, and Subrule m, *Members of a Limited Liability Company*, to adjust the minimum and maximum payroll limitations for executive officers, partners, individual employers, and members of a limited liability company to reflect the increase in wage levels that has occurred since the minimum and maximum payroll limitations previously were amended January 1, 2007.
8. Amend Part 3, *Standard Classification System*, Section VI, *Administration of Classification System*, Rule 4, *Audit of Payroll*, to clarify that a physical audit requires the review of an employer's original payroll records, electronic or hard copy, and to clarify the definition of voluntary audit.
9. Amend Classification 9181, *Athletic Teams or Parks – all players on the salary list of employer, whether regularly played or not*, to increase the annual payroll limitation for players from \$89,700 to \$92,300 per year per person to reflect wage inflation.
10. Amend Classifications 5185/5186, *Automatic Sprinkler Installation – within buildings*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation.
11. Amend Classification 8740(3), *Building Operation – N.O.C.*, for clarity and consistency.
12. Amend Classification 6361(1), *Canal Construction – all operations*, for clarity and consistency.
13. Amend Classifications 5645(1)/5697(1), *Carpentry – construction or remodeling of detached private residences for occupancy by one or two families*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.

14. Amend Classifications 5645(2)/5697(2), *Carpentry – construction or remodeling of dwellings not exceeding three stories in height*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.
15. Amend Classifications 5403/5432, *Carpentry – including the installation of interior trim, builders finish, doors and cabinet work in connection therewith*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.
16. Amend Classification 8850, *Check Cashers – all employees*, to specifically reference deferred deposit transactions in the footnote.
17. Amend Classifications 5201(1)/5205(1), *Concrete or Cement Work – pouring or finishing of concrete sidewalks, driveways, patios, curbs or gutters*, to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
18. Amend Classifications 5201(2)/5205(2), *Concrete or Cement Work – pouring or finishing of concrete floor slabs, poured in place and on the ground for other than concrete buildings or structural steel buildings of multi-story construction*, to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
19. Amend Classification 8839, *Dentists and Dental Surgeons – all employees*, for clarity and consistency.
20. Amend Classifications 5190/5140, *Electrical Wiring – within buildings*, to increase the hourly wage threshold from \$26.00 per hour to \$27.00 per hour to reflect wage inflation.
21. Amend the footnote to Classification 6218(1), *Excavation – N.O.C.*, to clarify the classification applicable to certain trenching operations.
22. Amend the footnote to Classification 6220(1), *Excavation – N.O.C.*, to clarify the classification applicable to certain trenching operations.
23. Amend Classifications 6315(2)/6316(2), *Gas Mains or Connections Construction – including tunneling at street crossings*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.
24. Amend Classifications 5467/5470, *Glaziers – away from shop*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.
25. Amend the footnote to Classification 6218(2), *Grading Land – N.O.C.*, to clarify the classification applicable to certain trenching operations.

26. Amend the footnote to Classification 6220(2), *Grading Land – N.O.C.*, to clarify the classification applicable to certain trenching operations.
27. Amend Classifications 5027/5028, *Masonry – employees whose regular hourly wage does not equal or exceed \$22.00 per hour*, to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
28. Eliminate Classification 4360, *Motion Pictures – development of negatives, printing and all subsequent operation except the marketing of the product through film exchanges at locations other than the studio*. The motion picture production industry is best described using a single classification and should be included in Classification 9610, *Motion Pictures – production*, to reflect changes proposed elsewhere in this section.
29. Amend Classification 9610, *Motion Pictures – production*, to include all operations within the motion picture production industry, to increase the annual payroll limitation for actors, musicians, producers and the motion picture director from \$89,700 to \$92,300 per year per person to reflect wage inflation, and for clarity.
30. Amend Classification 4362, *Motion Pictures – film exchanges*, to include the operations of motion picture film developers and processors and to remove the inclusion of Clerical Office Employees.
31. Amend Classifications 5474(1)/5482(1), *Painting Decorating or Paper Hanging – including shop operations*, to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
32. Amend Classifications 5474(3)/5482(3), *Painting – oil or gas storage tanks*, to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
33. Amend Classifications 5484/5485, *Plastering or Stucco Work – employees whose regular hourly wage does not equal or exceed \$23.00 per hour*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
34. Amend Classifications 5183(1)/5187(1), *Plumbing – shop and outside*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
35. Amend Classification 7610, *Radio, Television or Commercial Broadcasting Stations – all employees*, to increase the annual payroll limitation for players from \$89,700 to \$92,300 per year per person to reflect wage inflation.

36. Amend Classifications 5183(2)/5187(2), *Refrigeration Equipment – not household units*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
37. Amend Classifications 5552/5553, *Roofing – all kinds*, to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.
38. Amend Classifications 6307/6308, *Sewer Construction – all operations*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.
39. Amend Classifications 5538/5542, *Sheet Metal Work – erection, installation or repair*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
40. Amend Classifications 5630/5631, *Steel Framing – light gauge – residential*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.
41. Amend Classifications 5632/5633, *Steel Framing – light gauge – commercial or industrial*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.
42. Amend Classification 7365, *Taxicab Operations – all employees*, to increase the minimum annual payroll per taxicab from \$25,300 per year to \$25,900 to reflect wage inflation.
43. Amend Classification 9156, *Theaters – dance, opera and theater companies*, to increase the annual payroll limitation for performers and directors of performers from \$89,700 to \$92,300 per year per person to reflect wage inflation.
44. Amend Classification 9151, *Theaters – music ensembles*, to increase the annual payroll limitation for performers and directors of performers from \$89,700 to \$92,300 per year per person to reflect wage inflation.
45. Amend Classifications 5446/5447, *Wallboard Application – within buildings*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.
46. Amend Classifications 6315(1)/6316(1), *Water Mains or Connections Construction – including tunneling at street crossings*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.

47. Amend Classifications 5474(2)/5482(2), *Waterproofing – other than roofing or subaqueous work when performed as a separate operation not a part of or incidental to any other operation*, to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
48. Amend Part 3, *Standard Classification System*, Section VIII, *Abbreviated Classifications – Numeric Listing*, for consistency and to reflect the amendments proposed elsewhere in this section.
49. Amend Part 4, *Unit Statistical Report Filing Requirements*, Section II, *Definitions*, Rule 3, *Audited Exposure*, for clarity and consistency.
50. Amend Part 4, *Unit Statistical Report Filing Requirements*, Section III, *Policy Information (Header)*, Rule 22, *Estimated Exposure Indicator (Estimated Exposure)*, for clarity.

## **Appendices**

The WCIRB's recommendations are as follows:

1. Amend Appendix II, *Construction and Erection Classifications*, for consistency and to reflect the proposed amendments.
2. Amend Appendix III, *Payroll/Remuneration Table*, to reflect the complete citation to the Internal Revenue Code.

## **AMEND THE MISCELLANEOUS REGULATIONS FOR THE RECORDING AND REPORTING OF DATA**

The WCIRB recommends that the following amendments to the Miscellaneous Regulations for the Recording and Reporting of Data (Miscellaneous Regulations) be approved effective January 1, 2008 with respect to new and renewal policies with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2008.

The WCIRB's recommendations are as follows:

1. Amend Section I, *Introduction*, Rule 2, *Effective Date*, to show that the effective date of the amended Miscellaneous Regulations is 12:01 A.M., January 1, 2008.
2. Amend Section III, *Inquiries, Complaints and Requests for Action, Reconsideration and Appeals*, Rule 1, *Purpose and Time Limitation*, and Rule 4, *Reconsideration and Appeals to the Insurance Commissioner*, to correct the citation for the Revision of Losses rule.

## **AMEND THE CALIFORNIA WORKERS' COMPENSATION EXPERIENCE RATING PLAN—1995**

The WCIRB recommends that the following amendments to the California Workers' Compensation Experience Rating Plan—1995 (Experience Rating Plan) be approved effective January 1, 2008 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2008.

The WCIRB's recommendations are as follows:

1. Amend Section I, *General Provisions*, Rule 2, *Effective Date*, to show that the effective date of the amended Experience Rating Plan is 12:01 A.M., January 1, 2008.
2. Amend Section II, *Definitions*, Rule 1, *Audited Payroll*, for clarity and consistency with changes proposed to the California Workers' Compensation Uniform Statistical Reporting Plan—1995.
3. Amend Section III, *Eligibility and Experience Period*, Rule 1, *Eligibility Requirements for California Workers' Compensation Insurance*, to adjust the eligibility requirement from \$13,728 to \$14,900 to reflect wage inflation and the changes in pure premium rates proposed in this filing.
4. Amend Section VIII, *Inquiries, Complaints and Requests for Action, Reconsideration and Appeals*, Rule 1, *Purpose and Time Limitation*, to correct the citation for the Revision of Losses rule.
5. Amend the expected loss rates and D-ratios shown in Table II, *Expected Loss Rates and Full Coverage D-Ratios*, to reflect the most current data available.
6. Amend the average death value shown in Table III, *B and W Values*, from \$173,300 to \$175,000 to reflect the most current data available.

## **REVIEW AMENDMENTS TO THE CALIFORNIA RETROSPECTIVE RATING PLAN**

Amendments to the advisory California Retrospective Rating Plan were adopted by the WCIRB to be effective January 1, 2008 to reflect updated rating values as well as for clarity and consistency. This WCIRB advisory plan is being submitted in its entirety to the California Department of Insurance for review.



## **REVIEW AMENDMENTS TO THE CALIFORNIA LARGE RISK DEDUCTIBLE PLAN**

Amendments to the advisory California Large Risk Deductible Plan were adopted by the WCIRB to be effective January 1, 2008 to reflect updated rating values as well as for clarity and consistency. This WCIRB advisory plan is being submitted in its entirety to the California Department of Insurance for review.

## **REVIEW AMENDMENTS TO THE CALIFORNIA SMALL DEDUCTIBLE PLAN**

Amendments to the advisory California Small Deductible Plan were adopted by the WCIRB to be effective January 1, 2008 to reflect updated rating values as well as for clarity and consistency. This WCIRB advisory plan is being submitted in its entirety to the California Department of Insurance for review.

## **SPECIFIC TECHNOLOGIES OR EQUIPMENT**

Adoption of these proposed changes and amendments will not mandate the use of specific technologies or equipment.

## **IDENTIFICATION OF STUDIES, REPORTS, OR DOCUMENTS**

The Commissioner did not consider any studies, reports, or documents in promulgating these proposed changes or amendments other than the information provided by the WCIRB in its filing. However, the Commissioner may consider studies, reports, or documents submitted by the WCIRB, requested of the WCIRB by the Commissioner or his staff, or submitted by any interested person.

## **REASONABLE ALTERNATIVES**

The Commissioner has determined that no reasonable alternatives exist to carry out the proposed changes and amendments and that there are no reasonable alternatives that would lessen the impact on small business.

## **ASSESSMENT OF SIGNIFICANT ADVERSE ECONOMIC IMPACT ON BUSINESS**

The Commissioner has determined that it is unknown whether there will be a significant adverse economic impact on business as a result of the proposed changes to the pure premium rates. Adjustments to the proposed pure premium rates are advisory only, and it is left to workers' compensation insurers to determine what adjustments to make to their own pure premium rates. The Commissioner has determined that changes and amendments to the regulations contained in the California Workers' Compensation Uniform Statistical Reporting Plan—1995, the Miscellaneous Regulations for the Recording and Reporting of Data, and the California Workers' Compensation Experience Rating Plan—1995 will not have a significant adverse economic impact on business based upon the information provided by the WCIRB in its filing.

## **PRE-NOTICE PUBLIC DISCUSSIONS**

The Commissioner has not conducted Pre-Notice Public Discussions; however, the WCIRB has conducted public meetings regarding these proposed changes and amendments.